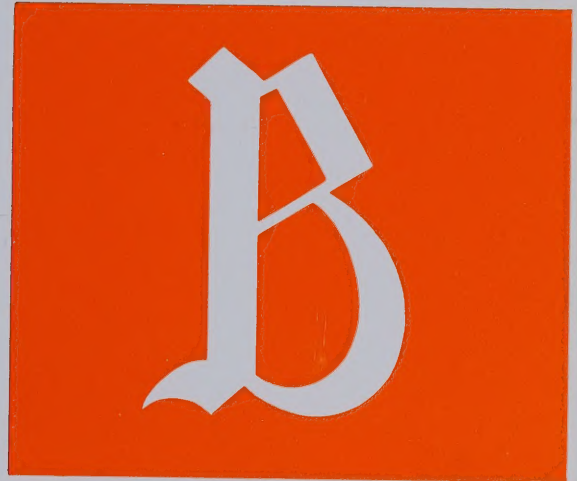


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BILTMORE

annual report



1974

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BILTMORE INDUSTRIES
GUELPH CANADA *Limited*

BILTMORE INDUSTRIES
GUELPH - CANADA *Limited*

*Six Months Report
June 30th 1974*

and Subsidiary Companies

CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 1974
(with comparative figures for 1973)

	1974	1973
Sales	\$ 2,430,391	\$ 2,154,297
Cost of sales	1,616,355	1,453,793
Selling general and administrative expenses	742,916	639,786
	2,359,271	2,093,579
Income before taxes	71,120	60,718
Income taxes	(37,300)	(25,500)
Net Income for Period	\$ 33,820	\$ 35,218
Earnings per common share based on the weighted average number of shares outstanding during the period	4.9c	5.7c

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 1974
(with comparative figures for 1973)

	1974	1973
Funds were provided by:		
Operations	\$ 33,820	\$ 35,218
Net income for period	21,278	21,740
Add depreciation and amortization not involving an outlay of funds	55,098	56,958
	4,118	14,467
Sale of fixed assets	59,216	71,425

Funds were used for:

Additions to fixed assets (including \$12,911 relating to acquisition of subsidiary in 1973)

Dividends	21,441	58,372
Reduction of long term debt	34,733	20,540
Increase in cash surrender value of life insurance of subsidiary	3,200	5,986
Excess of cost of shares in subsidiary over net book value of shares acquired	1,241	3,450
	—	125,894

	60,615	214,242
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Decrease in working capital	(1,399)	(142,817)
Working capital at beginning of period	860,504	919,474
Working capital at end of period	\$ 859,105	\$ 776,657

August 23, 1974

Dear Shareholder:

On behalf of the Board of Directors, I submit the unaudited financial statements for the six months ending June 30, 1974.

Headwear bookings for fall delivery, one of the most important indicators of our business activity at this time of year, are running 15% ahead of last year in dollar terms. Shipments in May and June were curtailed pending clarification of the Government's position on the Federal Sales Tax. With the settlement of this question in July, shipments have again resumed their growth. Cost increases are continually being met in every area of the business. These cost increases have necessitated significant price changes on almost all products.

Our neckwear subsidiary, Watson Brothers Limited, has performed well over the first six months. Both sales and earnings are ahead of last year. The operations of Custom Leather Products Limited have shown improvement in the second quarter. Some of the management and operating changes that we have made, are starting to take effect. Much remains to be accomplished, and an all-out effort is underway!

At the Annual Meeting, the shareholders approved a by-law reducing the Board of Directors from 8 members to 7. We welcome Mr. James McCutcheon and Mr. George Montague to the Board.

A dividend of six cents (6c) has been declared on Class "A" Shares payable on or after October 15th to shareholders of record on September 27th.

On behalf of the Board of Directors,

Michael McMillan
President

five year financial summary

	<u>1974</u>	<u>1973¹</u>	<u>1972²</u>	<u>1971</u>	<u>1970</u>
Income					
Sales	\$ 6,853,181	\$ 6,058,752	\$ 3,842,809	\$ 2,662,746	\$ 2,517,775
Net income for year ³	236,634	220,527	127,431	45,194	10,906
Earnings per share ⁴					
Undiluted	68.1¢	62.9¢	35.5¢	2.2¢	(12.1¢)
Fully diluted	52.0¢	48.3¢	30.6¢	2.2¢	(12.1¢)
Financial Position					
Working Capital	1,059,667	894,065	919,474	817,556	842,986
Fixed Assets—net	344,694	361,886	343,186	305,353	336,568
Other Assets	342,815	311,160	135,441	87,792	67,465
	<u>1,747,176</u>	<u>1,567,111</u>	<u>1,398,101</u>	<u>1,210,701</u>	<u>1,247,019</u>
Long-Term Debt	13,500	16,700	28,753	55,664	95,712
Shareholders' Equity	<u>\$ 1,733,676</u>	<u>\$ 1,550,411</u>	<u>\$ 1,369,348</u>	<u>\$ 1,155,037</u>	<u>\$ 1,151,307</u>

1. Includes results for Custom Leather Products Limited and Watson Brothers Limited for twelve months.
2. Year-end was changed from October 31 to December 31. Results are for fourteen months including results of Custom Leather Products Limited for two months.
3. The years 1970 and 1971 have been adjusted to reflect the retroactive charge to earnings of the cost of an annuity contract purchased under an agreement with a director and senior officer.
4. Reflects the 1972 share split of four new common shares plus one Class "B" share for each old common share, and four Convertible Class "A" shares plus one Class "B" share for each Class "A" share. In 1973, the Class "B" shares were exchanged for common shares and the Convertible Class "A" shares were re-classified as Convertible Preferred shares.

the president's report

On behalf of the Board of Directors, I am pleased to present the Annual Report.

Earnings for the twelve months ending December 31, 1974 were \$236,634 or 68.1¢ per share (52.0¢ per share fully diluted) as compared to \$220, 527 or 62.9¢ per share (48.3¢ per share fully diluted) for the previous year. Dividends of 25¢ per preferred share and 5¢ per common share were paid during the year.

Shipments from Biltmore's headwear operations were 14.1% ahead of last year. However, our profits after tax were only marginally ahead as we faced some huge and sometimes unexpected cost increases. Material input was substantially higher as the cost of our basic raw material for men's fur felt hats, which is rabbit fur, went to unprecedented heights. As of yet, there has been no softening in this market. Wage rates continue to increase, and, in addition, increased labour turnover has become a significant cost factor. Because of higher input cost per unit, the working capital required to finance inventory increased substantially and to compound the matter, interest rates were much higher in 1974. Consequently, Biltmore's financial charges were up \$68,000 in the year. For the Fall Selling Season in 1975, we have made major changes in our marketing approach to the United States, and we hope to substantially increase our sales in this large market.

Watson Brothers Limited, fine quality neckwear manufacturers, had another good year; however, it was down from 1973. While sales were ahead 6.7%, profits were down 10%. The profits were adversely affected by increasing material and wage costs. We are happy to advise that the earnings of Watson were more than sufficient to warrant full payment on that part of the notes payable contingent on 1974 earnings.

Custom Leather Products again incurred losses. However, the before-tax loss was significantly less than last year, and was incurred in the first quarter of the year. The market position of the company for its main product line, men's belts, improved greatly over the past year. These market gains were achieved against an industry wide decline in demand. Manufacturing operations, particularly inventory control, have been improved over this past year. As a loss was incurred, no payment on any notes contingent on 1974 earnings were necessary. Further, the terms of purchase of Custom were re-negotiated and a note, contingent on earnings from 1972 to 1975 which called for the issue of 46,153 common shares at \$3.25 each, convertible at the option of the holder or the company, was cancelled.

We extend our appreciation for the full support and co-operation of our co-workers, as well as thousands of retailers from coast to coast all of whom have contributed to our operations in 1974.

ON BEHALF OF THE BOARD OF DIRECTORS,

A handwritten signature in cursive script, reading "Michael McMillan".

Michael McMillan,
President.

consolidated statement of income

	Year Ended December 31	
	1974	1973
Sales	\$ 6,853,181	\$ 6,058,752
Cost of sales	4,509,550	4,067,744
Selling, general and administrative expenses	1,910,997	1,613,781
	6,420,547	5,681,525
Income before taxes	432,634	377,227
Income taxes—Current	191,800	152,500
—Deferred	4,200	4,200
	196,000	156,700
Net Income	\$ 236,634	\$ 220,527
Earnings per common share based on the weighted average number of shares outstanding during the period	68.1¢	62.9¢
Fully diluted earnings per share (Note 9)	52.0¢	48.3¢

consolidated statement of retained earnings

Balance at beginning of year	\$ 1,314,948	\$ 1,133,885
Net income	236,634	220,527
	1,551,582	1,354,412
Dividends:		
Preferred shares	38,831	39,464
Common shares	14,538	—
	53,369	39,464
Balance at end of year	\$ 1,498,213	\$ 1,314,948

consolidated balance sheet

Assets

	December 31	
	1974	1973
Current:		
Cash	\$ 202,453	\$ 173,494
Accounts receivable	1,504,507	1,484,403
Inventories (Note 2)	1,627,880	1,421,449
Prepaid expenses	1,357	7,521
	<u>3,336,197</u>	<u>3,086,867</u>
Cash surrender value of life insurance	3,065	17,210
Fixed assets, at cost (Note 3)	1,550,114	1,526,568
Less - Accumulated depreciation	1,205,420	1,164,682
	<u>344,694</u>	<u>361,886</u>
Deferred income tax charges	12,800	17,000
Excess of cost shares in subsidiaries over net book value of assets acquired (Note 4)	326,950	276,950
	<u>\$ 4,023,706</u>	<u>\$ 3,759,913</u>

Approved on Behalf of the Board:

Norman McMillan, Director

D. Michael McMillan, Director

Liabilities

	December 31	
	1974	1973
Current:		
Bank advances (Note 5)	\$ 1,490,352	\$ 1,290,865
Accounts payable and accrued liabilities	700,035	818,847
Notes payable	50,000	50,000
Income taxes payable	23,625	14,946
Dividends payable	9,318	9,444
Current portion of long-term debt	3,200	8,700
	<u>2,276,530</u>	<u>2,192,802</u>
Long-term debt payable to April 30, 1980	13,500	16,700
	<u>2,290,030</u>	<u>2,209,502</u>
Shareholders' Equity		
Capital stock (Notes 6 and 7)	235,463	235,463
Retained earnings	1,498,213	1,314,948
	<u>1,733,676</u>	<u>1,550,411</u>
	<u>\$ 4,023,706</u>	<u>\$ 3,759,913</u>

consolidated statement of changes in financial position

	Year Ended December 31	
	1974	1973
Funds were provided by:		
Operations—		
Net income	\$ 236,634	\$ 220,527
Add charges which do not affect current funds—		
Depreciation and amortization	45,427	47,499
Deferred income taxes	4,200	4,200
	<hr/> 286,261	<hr/> 272,226
Proceeds on surrender of life insurance policy	15,624	—
Sale of fixed assets	1,339	5,148
	<hr/> 303,224	<hr/> 277,374
Funds were used for:		
Purchase of fixed assets, including \$12,911 in 1973 relating to acquisition of subsidiaries	29,574	71,346
Increase in cash surrender value of life insurance in subsidiary	1,479	4,026
Reduction of long-term debt	3,200	12,054
Dividends	53,369	39,464
Excess of cost of shares in subsidiary company over net book value of assets acquired	50,000	175,893
	<hr/> 137,622	<hr/> 302,783
Increase (decrease) in working capital	165,602	(25,409)
Working capital at beginning of year	894,065	919,474
Working capital at end of year	<hr/> <hr/> \$ 1,059,667	<hr/> <hr/> \$ 894,065

notes to consolidated financial statements

DECEMBER 31, 1974

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

2. INVENTORIES

Inventories are stated at the lower of cost and net realizable value and comprise the following:

	December 31	
	1974	1973
Raw materials and supplies	\$ 767,585	\$ 589,784
Work-in-process	379,997	327,045
Finished goods	480,298	504,620
	\$ 1,627,880	\$ 1,421,449

3. FIXED ASSETS

The major categories of fixed assets and related accumulated depreciation and amortization (calculated using primarily the declining-balance method) are as follows:

	December 31, 1974			Dec. 31 1973
	Cost	Accumulated Depreciation and Amortization	Net	Net
Land	\$ 1,850	—	\$ 1,850	\$ 1,850
Buildings	430,167	217,024	213,143	224,361
Machinery and equipment	1,081,033	973,880	107,153	110,835
Leasehold improvements	37,064	14,516	22,548	24,840
	\$1,550,114	\$1,205,420	\$ 344,694	\$ 361,886

4. GOODWILL

In the opinion of management there is no indication of a reduction in value of Goodwill (the excess of the cost of shares in subsidiaries over the net book value of assets acquired) and accordingly it is not being amortized. This amount has increased by \$50,000 in 1974 by a payment made in accordance with the agreement described in Note 8(b).

5. BANK LOANS AND ADVANCES

The Company and a subsidiary have pledged accounts receivable and inventories with a carrying value of \$1,861,954 as security for bank advances of \$1,490,352.

6. CAPITAL STOCK

(a) Authorized —

158,000 convertible preferred shares without par value, entitled to cumulative dividend of 25¢ per share per annum, each convertible into common shares on a share for share basis.

2,000,000 common shares without par value.

1974 1973

(b) Issued —

155,295 convertible preferred shares (157,400 in 1973)	\$ 33,185	\$ 33,635
290,855 common shares (288,750 in 1973), including 2,105 (1973—2,600) shares issued on conversion of preferred shares	202,278	201,828
	\$ 235,463	\$ 235,463

(c) Common shares reserved

For the conversion of convertible preferred shares	155,295
For the exercise of options	15,000
For the conversion of notes payable—See Note 8(b)	43,429
	213,724

7. OPTIONS

On June 9, 1972 the Company granted an option to an officer to purchase a total of 15,000 common shares at a price of \$3.25 per share. The option, which expires on June 8, 1977, entitles the holder to purchase on a cumulative basis up to 3,000 common shares in each year of the option period. No options were exercised in 1974.

8. OTHER CONTINGENT LIABILITIES

(a) Under the terms of an agreement pertaining to the acquisition of the shares of a subsidiary in 1972, the Company might have been obligated to pay, over a four-year period, as determined by various formulae based on earnings, additional amounts not to exceed in the aggregate \$360,000. As the result of an agreement reached on March 24, 1975, the aggregate contingent amounts payable will not exceed \$210,000.

(b) Under the terms of an agreement pertaining to the acquisition of the shares of a subsidiary in 1973, the Company may be obligated to pay, contingent additional amounts over a four year period, as determined by a formula based upon the acquired Company's earnings, not to exceed in the aggregate \$200,000.

Under the terms of the formula above, \$50,000 of the contingent amounts has become due in respect of the year ended December 31, 1974 and this amount is included in notes payable at that date. The contingent amounts payable have correspondingly been reduced to \$150,000.

The amount due at December 31, 1974 and the balance of the contingent consideration noted above are represented in part by a note convertible at the option of the holder into a maximum of 43,429 common shares at the rate of 1 common share for each \$3.50 principal amount payable in 1975 and 1 common share for each \$3.75 principal amount determined to be payable in the years 1976 through 1978.

9. EARNINGS PER SHARE

Fully diluted earnings per share have been calculated assuming conversion of convertible shares and the exercise of outstanding options. In calculating such earnings a return of prime bank rate on the proceeds of the exercise of options has been assumed. The calculation does not include the shares which may arise as a result of the circumstances described in Note 8 because their issuance is wholly dependent on higher earnings accruing in the subsidiaries in future years.

notes to consolidated financial statements

continued

10. REMUNERATION OF DIRECTORS AND OFFICERS

During the year ended December 31, 1974 the aggregate amounts paid or payable by the Company and its subsidiaries to eight directors in their capacity as directors was \$900 (\$450 in 1973) and of seven officers was \$166,236 (\$200,241 in 1973). Three of the directors are also officers of the Company or its subsidiaries.

11. OTHER INFORMATION

	1974	1973
Depreciation and amortization:		
Included in cost of sales	\$ 32,945	\$ 33,295
Included in selling, general and administrative expenses	12,482	14,204
	<u>\$ 45,427</u>	<u>\$ 47,499</u>
Interest:		
On current debt	\$ 178,505	\$ 111,289
On long-term debt	314	2,073
	<u>\$ 178,819</u>	<u>\$ 113,362</u>

auditors' report To the Shareholders of Biltmore Industries Limited:

We have examined the consolidated balance sheet of Biltmore Industries Limited and its subsidiaries as at December 31, 1974 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Biltmore Industries Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We did not examine the financial statements of one of the consolidated subsidiaries which statements reflect total assets and revenues constituting 22% and 25% respectively of the related consolidated totals and we have relied on the report of the auditors who have examined the financial statements of this subsidiary.

In our opinion these consolidated financial statements present fairly the financial position of the Companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Kitchener, Ontario
February 21, 1975
(Except for note 8a, which is
dated March 24, 1975)

Price Waterhouse & Co.
Chartered Accountants

corporate directory

HEAD OFFICE, GUELPH, ONTARIO

Board of Directors

WILLIAM A. DETENBECK, Port Credit, Ontario
JAMES W. McCUTCHEON, Toronto, Ontario
D. MICHAEL McMILLAN, Guelph, Ontario
NORMAN McMILLAN, Guelph, Ontario
GEORGE H. MONTAGUE, Toronto, Ontario
PHILIP M. SPICER, Hamilton, Ontario
DAVID B. WELDON, London, Ontario

Officers

NORMAN McMILLAN, Chairman of the Board
D. MICHAEL McMILLAN, President
NORMAN B. IRWIN, C.A., Secretary-Treasurer
JOSEPH G. WEIST, Manufacturing Manager

Subsidiary Companies

CUSTOM LEATHER PRODUCTS LIMITED, Kitchener, Ontario
WATSON BROTHERS LIMITED, Toronto, Ontario
BILTMORE HATS (WESTERN) LIMITED, Guelph, Ontario
(non-operating)

Auditors

PRICE WATERHOUSE & CO., Kitchener, Ontario

Registrar and Transfer Agents

CANADA PERMANENT TRUST COMPANY, Toronto, Ontario

Bankers

CANADIAN IMPERIAL BANK OF COMMERCE

Stock Listing

TORONTO STOCK EXCHANGE, Toronto, Ontario

TSLEATHERGOODSNECKWEARHATSLEATHERGOODSNECKWEARHATSLEATHERGOODSNECKWEARHATSLEATHERGOODSNECKWE

